SEGMENT REVIEW

Given below is a review of the various business segments of the Group.

Overview

Property development

Property sales revenue dropped 82.1% to HK$298.3 million during the year (2005: HK$1,669.7 million). Operating profit correspondingly dropped 73.5% to HK$93.6 million (2005: HK$353.2 million). The decrease was attributable to sale of the remaining 11 Grange Residences units in Singapore by Wheelock Properties (Singapore) group ("WPSL"), whereas 92 units were sold last year. Other property sales for the year included units at Metro Loft, My Loft and Palm Cove and one shop at Bailey Garden.

Property investment

Rental revenue increased by 19.5% to HK$405.1 million (2005: HK$339.1 million). Operating profit increased by 12.0% to HK$252.4 million (2005: HK$225.4 million). The improvement reflected the first full-year rental contribution from the Oakwood Residence Azabujuban serviced apartments in Japan and the Ascott serviced apartments and the Scotts retail complex in Singapore, both acquired by WPSL in September 2004.

Property agency

The UK-based estate agency, Hamptons, became a wholly-owned subsidiary of WPSL in April 2005. Its results were consolidated into the Group's results in 2005/06. Property agency revenue and operating profit were HK$800.3 million and HK$19.9 million respectively for the year.

Investment and others

Investment revenue, which comprised mainly dividends from the Group's long-term investment portfolio and interest earned, increased by 58.3% to HK$284.8 million (2005: HK$179.9 million). Operating profit for the year was HK$522.8 million, which included profits of HK$168.3 million from the sale of certain long-term investments and HK$98.2 million from the sale of Great Western Plaza units.

WPSL, a 75.8%-owned Singapore listed subsidiary

WPSL reported a profit attributable to shareholders of S$183.7 million (about HK$859 million) for the year under review, a decrease of 7.3% as compared to S$198.1 million (about HK$925 million) achieved in 2004/05. The decrease was mainly due to less Grange Residences units sold during the year, but was partially compensated by profits on pre-sale of certain units of The Sea View and The Cosmopolitan.

WPSL recognises profits on development pre-sales using the percentage of completion method in accordance with generally accepted accounting principles adopted in Singapore. Under the Hong Kong Financial Reporting Standards, the Group adopts the "completion method" and does not recognise any profit on development pre-sales until completion of the properties. Accordingly, the pre-sale profits recognised by WPSL were reversed in the Group's consolidated financial statements.

In March 2006, WPSL acquired a 20.97% interest in the Singapore listed Hotel Properties Limited ("HPL") for S$171.4 million (about HK$823 million). The principal activities of HPL are those of a hotelier and investment holdings.

Development properties

As at the financial year end, all 164 units of *Grange Residences* were sold. 11 of them were sold during the year under review.

The Sea View is a residential condominium development with 546 apartments on the amalgamated site of the former Sea View Hotel and the China Airlines House. Foundation works were completed in September 2005. Pre-sale was launched in July 2005 and 79% of the total 546 apartments were pre-sold by March 2006.

The Cosmopolitan is a residential condominium development of 228 apartments on the former Times House site. Foundation works were completed in August 2005. Pre-sale was launched in October 2005 and 70% of the total 228 apartments were pre-sold by March 2006.

WPSL acquired *The Habitat II* at 2 Ardmore Park, Singapore for S$103.9 million (about HK$499 million) in March 2006. It will be amalgamated with the adjoining site, *Ardmore View*, to redevelop into a prime residential condominium development, to be known as *Ardmore II*, for sale. Planning of the sales gallery and show flat is underway, with targeted completion by September 2006.

Demolition of *Orchard View* (formerly known as *Angullia View*) was completed in November 2005 and piling work has started in May 2006.

The *Scotts Shopping Centre* and the *Ascott Serviced Apartment* were 97% and 87% leased respectively during the year at satisfactory rental rates. The property will be redeveloped into a residential and commercial complex when all existing leases and property management agreement expire by the end of 2006. Demolition of the building is expected to commence in the first half of 2007.

Investment properties

Wheelock Place, a commercial development at Orchard Road, Singapore, and *Oakwood Residence Azabujuban*, a serviced apartment development in Tokyo, are 95% and 93% leased respectively at satisfactory rental rates.

Property agency

Hamptons' principal activities include residential agency, lettings and management, investment and development sales. Hamptons generated revenue and profit of £58.8 million (about HK$800 million) and £3.2 million (about HK$43 million) respectively during the year under review, compared to £55.8 million (about HK$756 million) and £4.0 million (about HK$54 million) in the previous year.

Associates

Bellagio (1/3 owned by the Group)

Bellagio, in Sham Tseng on the western shore of the New Territories overlooking the Tsing Ma Bridge, is a joint-venture development equally owned by Wheelock Properties, Wheelock and Wharf. Virtually all of the 1,704 units in Towers 6, 7, 8 and 9 have been sold, realising proceeds of about HK$4.1 billion.

Occupation permits and certificate of compliance for Towers 1, 2, 3 and 5 (total: 1,641 residential units) were issued in May 2005 and February 2006 respectively. 329 units were sold during the year under review, and cumulative sales reached 1,048 units (or 61%) at the end of March 2006 to realise HK$4.1 billion of proceeds.

Sorrento (40% owned by the Group)

Sorrento is a joint-venture project with MTRC above the Kowloon Station, owned by a consortium comprising 40% by Wheelock Properties, and 20% each by Wheelock, Wharf and Harbour Centre Development. Virtually all of the 854 units in Phase II have been sold by the end of March 2006 to realise HK$5.9 billion of proceeds.

Parc Palais (20% owned by the Group)

Parc Palais is a one million square feet GFA residential development in Homantin owned by a five-member consortium comprising Wheelock Properties (20%), New World Development (30%), Sino Land (30%), Chinese Estates (10%) and Manhatten Garments (10%). 92% of the 700 units (652 units) have been sold by the end of March 2006 to realise HK$6.4 billion of proceeds.

FINANCIAL REVIEW

(I) Results Review

In preparing the financial statements for the year ended 31 March 2006, the Group has adopted the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), including all Hong Kong Accounting Standards ("HKASs") and relevant Interpretations, which took effect on 1 January 2005. Applicable prior year adjustments have also been made to 2004/05's financial statements. The resulting effects of the changes in accounting treatment and presentation are detailed in Note 11 to the Financial Statements.

Profit attributable to Shareholders

The Group reported a profit attributable to Shareholders of HK$2,234.2 million for the year ended 31 March 2006, an increase of HK$392.6 million or 21.3% over HK$1,841.6 million in the previous year. Earnings per share were HK$1.08 (2005: HK$0.89).

In accordance with the new HKFRSs, the Group revalued its investment properties as at 31 March 2006 and accounted for a net attributable surplus of HK$1,073.0 million, representing revaluation surplus of HK$1,384.4 million less deferred tax and minority interests of HK$260.7 million and HK$50.7 million respectively, in its profit and loss account for the year under review. The 2004/05 results included a net attributable surplus of HK$465.2 million.

Included in the results for the year was an attributable property write-back of HK$144.2 million mainly in respect of Ardmore View in Singapore, whereas for the preceding year, the write-back attributed to the Group was HK$464.0 million mainly for Bellagio, a joint-venture development project held through an associate.

Excluding the above net revaluation surplus and write-back for properties, the Group's net profit attributable to Shareholders would have been HK$1,017.0 million for the year under review, an increase of HK$104.6 million or 11.5% compared to HK$912.4 million in 2004/05. This profit increase was largely due to the contributions from disposals of certain long-term investments of HK$168.3 million and investment properties of HK$98.2 million. The year under review also saw an increase in share of profit from sale of Bellagio units. The favourable results were partially offset by lower development profit from sale of Grange Residences units held by WPSL.

Group turnover

The Group's turnover decreased by HK$400.2 million or 18.3% to HK$1,788.5 million (2005: HK$2,188.7 million). The decrease was chiefly attributable to decrease in revenue from Property Development segment by HK$1,371.4 million, resulting mainly from less Grange Residences units sold by WPSL. During the year under review, the remaining 11 Grange Residences units were sold. In addition, Hamptons results contributing property agency income of HK$800.3 million were consolidated into the Group's results since April 2005 when it became a wholly-owned subsidiary of WPSL. The results of Hamptons were previously equity accounted for as a 32.4%-owned associate of WPSL.

Operating profit

The Group's operating profit increased by HK$35.9 million or 4.3% to HK$873.2 million (2005: HK$837.3 million). The increase in profit was mainly attributable to the profit on sale of certain long-term investments and investment properties totalled HK$266.5 million, but substantially offset by lower profit on property sale recorded by WPSL as mentioned above. The Group's operating profit for the year also benefited from increase in property rental income and the inclusion of Hamptons' property agency income.

Borrowing costs

Borrowing costs charged to the profit and loss account increased to HK$52.8 million (2005: HK$37.9 million), which was mainly incurred by WPSL. Borrowing costs before capitalisation was HK$96.0 million (2005: HK$58.3 million). For the year under review, the Group's effective borrowing interest rate was approximately 2.9% (2005: 2.2%) per annum.

Share of profits less losses of associates

The share of profit of associates was HK$325.0 million against HK$732.3 million for the previous year. Included in the share of associates' profit for 2004/05 is an attributable property write-back of HK$442.3 million in respect of the Group's one-third interest in the Bellagio project. The share of associates' results for the year under review mainly came from profit on sales of Bellagio units and Parc Palais units undertaken by other associates.

Income tax

The taxation charge of HK$322.7 million (2005: HK$186.4 million) included the deferred tax of HK$246.1 million (2005: HK$137.6 million) provided against the net revaluation surplus of investment properties in accordance with the new accounting standards.

Minority interests

Profit shared by minority interests was HK$163.0 million (2005: HK$175.2 million), which mainly related to WPSL.

(II) Liquidity and Financial Resources

Equity

At 31 March 2006, the Group's Shareholders' equity amounted to HK$18,159.1 million or HK$8.77 per share, against the restated amount of HK$14,978.3 million or HK$7.24 per share at 31 March 2005. The increase was chiefly due to the attributable appreciation in value of the Group's long-term investments and investment property portfolio by HK$1,034.9 million and HK$1,073.0 million (net of deferred tax and minority interests), respectively.

At 31 March 2006, the Group's total equity, including minority interests, was HK$19,858.0 million (2005: HK$16,530.2 million).

Net cash

At 31 March 2006, the Group's net cash amounted to HK$589.1 million, which was made up of deposits and cash of HK$4,498.1 million and total debts of HK$3,909.0 million, as compared to a net cash of HK$369.6 million at 31 March 2005.

Excluding WPSL, the Company and its subsidiaries together had a net cash of HK$1,824.1 million (2005: HK$1,098.9 million). The major cash inflows for the year resulted from the sale of certain long-term investments and sale of investment and other properties. In addition, proceeds from sale of Bellagio, Sorrento and Parc Palais units were distributed by the project companies among their shareholders in proportion to their equity interests in the respective projects and the Group had received HK$0.9 billion from those associates. During the year under review, the Group paid HK$0.9 billion for the acquisition of Heung Yip Road property, Babington Path property and some office properties in Hong Kong.

WPSL's net debt increased to HK$1,235.0 million at 31 March 2006 compared to HK$729.3 million at 31 March 2005, resulting from its acquisition of 20.97% of Hotel Properties Limited and additional interests in Hamptons, and the Orchard View and The Habitat II sites. This was in part offset by proceeds received from purchasers of Grange Residences units, The Sea View units and The Cosmopolitan units.

Committed and uncommitted facilities

(a) The Group had committed and uncommitted loan facilities of HK$6.4 billion and HK$0.3 billion respectively. The debt maturity profile of the Group at 31 March 2006 was analysed as follows:

	2006 HK$ Million	2005 HK$ Million
Repayable within 1 year	**840.0**	–
Repayable after 1 year, but within 2 years	**1,538.8**	–
Repayable after 2 years, but within 5 years	**1,530.2**	3,114.9
	3,909.0	3,114.9
Undrawn facilities	**2,800.6**	1,600.0

(b) The following assets of the Group have been pledged for securing bank loan facilities:

	2006 HK$ Million	2005 HK$ Million
Investment properties	**493.4**	474.5
Properties under development for sale	**4,014.3**	2,284.2
	4,507.7	2,758.7

(c) At 31 March 2006, WPSL's borrowings for financing its investment in Hamptons and properties in Singapore and Japan were primarily denominated in respective local currencies i.e. pound sterling, Singapore dollar and Japanese yen, respectively. Forward exchange contracts were entered into by WPSL for hedging its net investment in a foreign subsidiary. The Group has no other significant exposure to foreign exchange fluctuation except for its net investments in Singapore subsidiaries.

Available-for-sale investments

At 31 March 2006, the Group maintained a portfolio of long-term investments with market value of HK$7,079.4 million (2005: HK$5,701.2 million), which primarily comprised a 7% interest in Wharf and other blue chip securities.

In accordance with the Group's accounting policies, the long-term investments classified as available-for-sale investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserves until the investment is sold. At 31 March 2006, such reserves had an attributable accumulated surplus of HK$2,419.7 million compared to HK$1,504.6 million at 31 March 2005. The performance of the portfolio was in line with the stock markets.

(III) Contingent Liabilities

At 31 March 2006 and 31 March 2005, there was no guarantee given by the Group in respect of banking facilities available to associates.

(IV) Acquisition of Properties/Subsidiary/Investments

Properties

2 Heung Yip Road

The Group completed in June 2005 the acquisition of the property, known as 2 Heung Yip Road, in Hong Kong at a consideration of HK$455 million.

6D-6E Babington Path

The Group completed in March 2006 the acquisition of the property, known as 6D-6E Babington Path, Mid-Levels, Hong Kong at a consideration of HK$240 million. Redevelopment of the property will commence in 2006/07.

Other properties acquisition in Hong Kong

During the year, the Group also acquired some office properties at a total consideration of HK$220 million.

Orchard View, Singapore

WPSL completed in April 2005 the acquisition of the Orchard View at a consideration of S$43.8 million (about HK$209 million). WPSL has planned to redevelop it into a luxury apartment.

The Habitat II, Singapore

WPSL completed in March 2006 the acquisition of The Habitat II, 2 Ardmore Park, Singapore at a consideration of S$103.9 million (about HK$499 million). WPSL plans to amalgamate this site with the Ardmore View site for redevelopment into a prime residential condominium known as Ardmore II for sale.

Subsidiary

Hamptons Group Limited ("Hamptons")

WPSL completed in April 2005 the acquisition of the remaining interests of 67.6% in Hamptons at a total consideration of approximately £23.8 million (about HK$357 million), making Hamptons a 100% owned subsidiary of WPSL. Accordingly, with effect from April 2005, the Group has consolidated Hamptons' results, assets and liabilities.

Investments

Hotel Properties Limited ("HPL") (20.97%)

WPSL acquired 20.97% interest or 95,230,000 shares in HPL for S$171.4 million (about HK$823 million) on 21 March 2006. Since the Group does not have significant influence over the financial and operating policy decision of HPL, the 20.97% interest in HPL is accounted for as available-for-sale investment instead of an associate in the financial statements. HPL is a listed company in Singapore and its businesses include hotel operations, development properties, investment properties and restaurants.

(V) Human Resources

The Group has 1,046 employees at 31 March 2006 (2005: 95). The increase of 951 employees is mainly due to the inclusion of Hamptons' employees after it became a subsidiary of the Group in April 2005. Employees are remunerated according to nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the year ended 31 March 2006 amounted to HK$363.1 million.